

MEMORANDUM



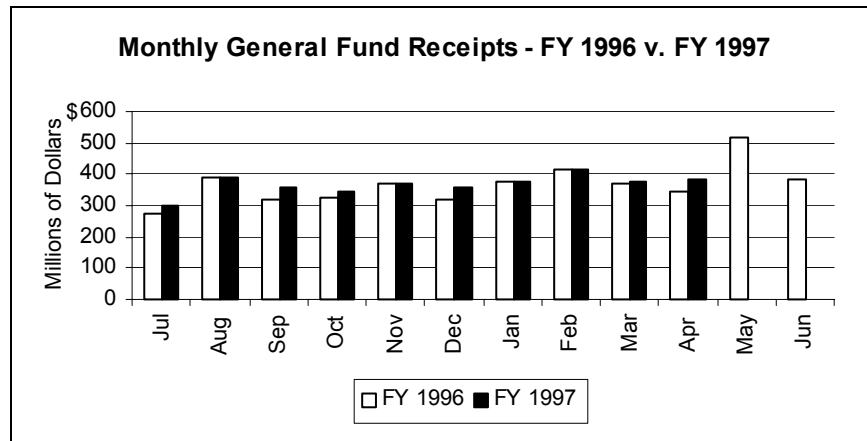
TO: Members of the Iowa Senate and
Members of the Iowa House of Representatives

FROM: Dennis C. Prouty

DATE: May 1, 1997

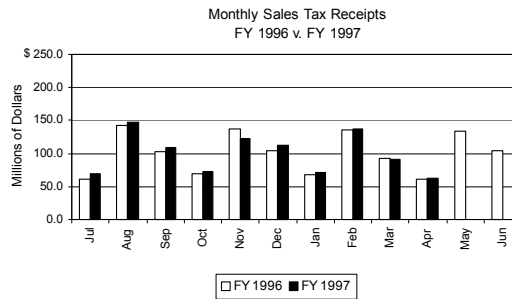
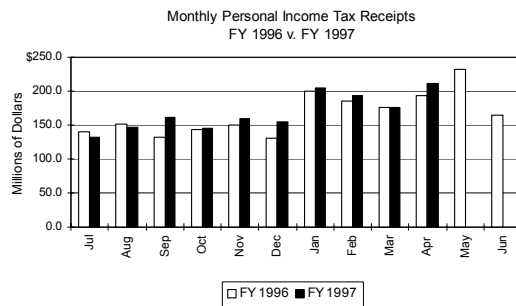
General Fund Receipts Through April 30, 1997

The attached spreadsheet represents total FY 1997 General Fund receipts, with comparable figures for FY 1996. These can be compared to the latest FY 1997 estimate (\$4.611 billion) set by the Revenue Estimating Conference (REC) on April 10, 1997. The estimate represents an increase of \$204.2 million (4.6%) compared to FY 1996. The FY 1998 estimate of \$4.715 billion represents an increase of \$103.7 million (2.2%) compared to the revised FY 1997 estimate.



The REC estimates were reduced from the November estimates. Estimated FY 1997 total General Fund receipts were reduced \$16.2 million, primarily due to a significant decline in sales tax revenue. The FY 1998 estimate was reduced \$120.5 million. The reduction reflected law changes that had been signed into law prior to the meeting, principally the inheritance tax cut (SF 35) and the income tax rate reduction (HF 388).

Total year-to-date General Fund receipts for the first 10 months of FY 1997 increased 5.0% compared to FY 1996. Tax receipts also showed an increase of 5.0%. Personal income tax receipts increased 5.2%. Sales tax receipts were 2.3% higher than the previous fiscal year. Use tax receipts and corporate income tax receipts both exceeded last year's level by 8.4%. Receipts collected in the month of April were 11.3% greater than April 1996.



Gross personal income tax revenues received in April were \$18.4 million (9.5%) greater than April 1996. Virtually all of the growth occurred in the returns account which finished the month \$17.8 million (27.8%) higher than a year ago. A portion of this amount, estimated to be about \$7.0 million, was due to delayed farm returns. Another key factor was the processing rate in April. The Department of Revenue and Finance processed approximately 18,000 (15.6%) more returns in April 1997 than April 1996. Year-to-date total receipts posted to the returns account were 11.2% greater than the first 10 months of FY 1996.

Withholding receipts in April exceeded last year's level by less than one-half of one percentage point. Although the year-to-date growth rate (4.9%) declined for the third consecutive month, the reduced activity was largely due to delayed processing. The Department processed almost 4,000 fewer withholding documents in April 1997 than in April 1996 (typically, 40,000 documents are processed in a withholding period). Although this was nearly a 10.0% decline, the largest payments (which come from electronic file transfers) were processed, which indicates the reduction due to processing delays was probably less than \$6.0 million.

Estimate payments, which were due April 30, barely kept pace with last year's level. For the year, estimate payments exceeded last year's level by \$7.7 million (3.6%). Since a significant portion of the estimate payments will actually be processed in May, it is difficult to determine whether or not the year-to-date growth rate is indicative of how estimate payments will finish the year.

The REC maintained the FY 1997 income tax estimate of \$2.109 billion, which represents a projected increase of 5.4% compared to FY 1996. Individual income tax receipts for the remainder of the year need to grow 6.2% (compared to the last two months of FY 1996) to reach the estimate.

Sales tax receipts in April grew 3.5% compared to April 1996. The lingering effects of the November local option reconciliation payment is still being reflected in the year-to-date growth rate of 2.3%.

For the past five months, which does not include the local option effect, sales tax receipts exceeded last year's level by \$15.9 million (3.5%). To reflect lower sales tax activity, the April REC reduced the FY 1997 estimate by \$15.0 million to \$1.260 billion, an increase of 3.9% compared to FY 1996. To reach the revised estimate, sales tax receipts for the remainder of the year need to grow 10.2% compared to the last two months of FY 1996.

Corporate income tax receipts in April were 14.1% greater than April 1996. Year-to-date receipts exceeded FY 1996 levels by \$17.6 million (8.4%). The current REC estimate of \$295.0 million represents an increase of 6.3% compared to actual FY 1996 corporate income tax receipts. To reach the REC estimate, receipts for the remainder of the year will need to keep pace with the last two months of FY 1996.

Franchise tax receipts through the first 10 months of FY 1997 totaled \$27.0 million, an increase of \$7.4 million (38.0%) compared to FY 1996, providing further evidence that tax avoidance measures utilized by financial institutions may be diminishing. The \$6.8 million collected in April was the largest month on record and exceeded last year's level by \$3.8 million (126.2%). As is the case with individual income tax, a share of final return payments are processed in the month of May, which may lower the year-

to-date level reported next month. Because the April REC did not have any final return data, the FY 1997 franchise tax estimate was adjusted, and remains at \$30.0 million. To reach or exceed the REC estimate, franchise tax revenues received in the last two months could be as much as 56.2% less than the last two months in FY 1996

Racing and gaming receipts - The REC anticipates total racing and gaming receipts will reach \$120.7 million in FY 1997, \$60.0 million of which is deposited in the General Fund. This level would result in a transfer of \$60.7 million to the Rebuild Iowa Infrastructure Fund (RIIF) in FY 1997. All racing and gaming receipts going to the General Fund have been collected. For comparison purposes, no racing and gaming receipts were deposited in the General Fund after February last year either. Consequently, growth in General Fund receipts will have to be generated from other revenue streams. The REC projects \$65.2 million will be transferred to the RIIF in FY 1998.

Receipts Compared to REC Estimate

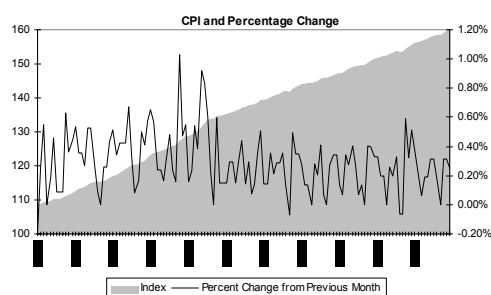
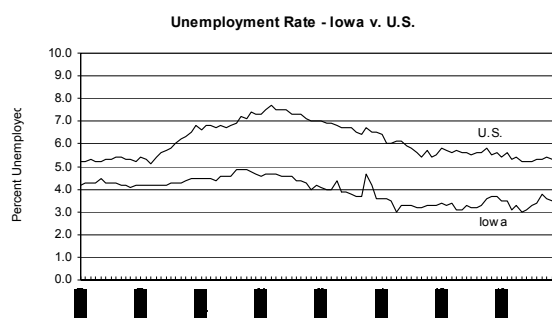
The April REC FY 1997 estimate of \$4.611 billion represents an increase of 4.6% compared to actual FY 1996 General Fund receipts. Assuming each month is expected to increase by the REC estimate, receipts collected in the first 10 months exceeded the estimate by \$12.4 million (unadjusted for any timing factors).

General Fund receipts for the last two months of FY 1997 will have to exceed the FY 1996 level by \$30.6 million (3.4%) to reach the current REC estimate. Approximately \$902.1 million was received in May and June of FY 1996.

Status of the Economy

The seasonally adjusted percent unemployed for the State decreased three-tenths of a point to 3.2% in March. The unemployment rate a year ago was 3.7%. Iowa's total employment hit a record high of 1,574,400. The U.S. unemployment rate in March decreased to 5.2% from the February rate of 5.3%.

Consumer prices in March increased three-tenths of a point. The Consumer Price Index (CPI) through March 1997 was 160.0 (1983=100), which is 2.8% higher than one year ago. The following series illustrate U.S. and Iowa unemployment comparisons and the CPI through March 1997.



Information related to State General Fund receipts continues to be made available electronically through the Fiscal Bureau's Electronic Publishing of Information System (EPI). If you have questions regarding this service, you may contact Glen Dickinson (515-281-4616) or Jon Muller (515-281-4611).

GENERAL FUND RECEIPTS - FY 1997 vs. FY 1996						ESTIMATED GENERAL FUND RECEIPTS in millions of dollars			
July 1, 1996, through April 30, 1997, in millions of dollars						FY 96 Actual Compared to FY 97 REC Estimate			
		FY 1996		FY 1997		Year to Date		April	
						% CHANGE		% CHANGE	
								Estimate	
								FY 1997	
								% CHANGE	
Personal Income Tax	\$	1,603.2	\$	1,686.7		5.2%		\$	2,109.0
Sales Tax		974.0		996.7		2.3%			1,260.0
Use Tax		171.3		185.6		8.4%			225.0
Corporate Income Tax		208.8		226.4		8.4%			295.0
Inheritance Tax		77.6		90.7		16.9%			108.0
Insurance Premium Tax		49.5		50.1		1.2%			107.0
Cigarette Tax		77.5		77.9		0.5%			95.0
Tobacco Tax		4.4		4.7		7.2%			5.5
Beer Tax		10.3		10.3		-0.1%			12.5
Franchise Tax		19.5		27.0		38.0%			30.0
Miscellaneous Tax		1.3		2.1		56.3%			0.9
Total Special Taxes	\$	3,197.5	\$	3,358.2		5.0%		\$	4,247.9
Institutional Payments		84.8		85.3		0.6%			102.2
Liquor Transfers:									
Profits		21.5		23.5		9.3%			30.0
7% Gross Revenue		7.5		7.5		0.0%			9.0
Interest		10.6		13.8		29.9%			14.5
Fees		51.0		53.0		3.9%			60.1
Judicial Revenue		30.4		32.9		8.5%			40.1
Miscellaneous Receipts		41.2		43.9		6.4%			47.0
Racing and Gaming Receipt		60.0		60.0		0.0%			60.0
TOTAL RECEIPTS	\$	3,504.5	\$	3,678.1		5.0%		\$	4,610.8
									4.6%